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FEATURED Q&A

How Is Argentina's Battle With Bondholders Playing Out?

Q The U.S. Supreme Court on June 16 declined to hear Argentina's appeal of a lower-court ruling that requires it to pay bondholders who refused to accept the country's debt restructurings. President Cristina Fernández de Kirchner responded by saying Argentina would not be subject to "extortion." A day later, Economy Minister Axel Kicillof announced a plan to pay the holders of restructured notes under Argentine, rather than U.S., law, and a government lawyer said that Argentina would negotiate with the holdouts for the first time. How will Argentina's battle with the "holdouts" play out? Will Argentina be pushed into a default? How will the latest developments affect the country's planned return to international capital markets?

A Miguel Kiguel, executive director of Econviews in Buenos Aires: "The Supreme Court's decision not to hear Argentina's appeal forced the government to choose between difficult options. The initial reaction was to look for alternatives, namely to make the payments in Argentina, a decision that would have led eventually to a default. Upon reflection, the president decided that the best option was to enter into negotiations with the holdouts, even if it means a political defeat and that the vulture funds will get very favorable financial terms. In the long run, however, the Supreme Court's decision could have been a blessing in disguise. It forced Argentina to anticipate a solution for the holdouts issue, and if the negotiations end successfully as we expect, Argentina would remove the last obstacle to regain access to the international financial markets. One key implication is that the outlook for Argentine asset prices has improved. Since the Lehman crisis, Argentina's emerging markets bond index has been on average at around 800 basis points (bps), in the league with Venezuela and Ukraine. A successful outcome on the holdouts issue should imply that Argentine credit spreads will eventually move closer

Continued on page 3

Judge Denies Argentine Request to Delay Court Order

In the wake of U.S. Judge Thomas Griesa's decision Thursday to deny Argentina's request to stay an order to pay holdout bondholders, Cabinet Chief Jorge Capitanich stressed the importance of the support of the G77 countries and China in its court battles. See story on page 2.

File Photo: Government of Argentina.

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NEWS BRIEFS

Cocaine Production Falls 13 Percent in Colombia

The United Nations Office on Drugs and Crime Thursday said cocaine production in Colombia dropped nearly 13 percent last year, Agence France-Presse reported. The Andean nation remains the second-biggest producer of coca leaf in the world, behind only Peru. Colombian production decreased from 333 tonnes in 2012 to 290 tonnes in 2013 despite having roughly the same area under cultivation, suggesting yields were lower.

Southern Cross Group Buys Mexico Magazine Publisher

New York-based private equity firm **Southern Cross Group** said Thursday it had agreed to acquire Mexico-based magazine publisher **Grupo Expansión** (GEx) from **Time Inc.** for an undisclosed amount of money. GEx was founded in 1966 and was acquired by Time Inc. in 2005 for about $50 million, *Milenio* reported. It is Mexico's second-largest magazine publisher, with 16 titles, including *Expansión*, and websites such as Mediotiempo.

Spain's Abengoa Selected to Build Desalination Plant in Chile

Spanish construction firm **Abengoa** said Thursday it has been selected by Chile's **AES Gener** to develop its first desalination plant in Chile, EFE reported. The project, located in the northern region of Antofagasta, involves both the engineering and construction of the plant as well as subsequent operation of it. The plant will provide water to AES Gener's power plant in Angamos and will have an initial capacity of 4,800 cubic meters of water per day, which could be extended to a 19,200 cubic meters of water per day in a second phase.

Economic News

New York Judge Denies Argentine Request to Delay Court Order

U.S. District Judge Thomas Griesa in New York on Thursday denied Argentina's request to stay a ruling that ordered the cash-strapped South American nation to pay $1.5 billion to the holders of defaulted debt when it makes the next payment on its restructured debt that's due June 30. "Such a request is not appropriate," Griesa wrote in the order, Bloomberg News reported. If Argentina fails to make the $900 million payment due Monday to holders of its restructured debt, it has an additional 30-day grace period, according to the report. The U.S. Supreme Court last week declined to review Griesa's ruling that Argentina must compensate holdout creditors or it cannot make payments to bondholders who accepted restructured debt in 2005 and 2010. Monday's deadline is likely to come and go without incident, analysts say. "Unless Argentina actually pays both in cash, something that is highly unlikely, it will likely miss the June 30 payment," **Eurasia Group** analyst Daniel Kerner wrote in a research note to clients Thursday. "[While] the risk of them missing the payment on July 30 is high (around 40 percent), we still think that the most likely outcome will be some sort of eventual settlement," Kerner added. Meanwhile, lawyers for the holdout bondholders on Thursday sent a letter to Griesa complaining that Argentina's government, in depositing $1 billion "in good faith" with the intent to make an interest payment on previously restructured bonds, is trying to circumvent the court's order, *Clarín* reported. Attorney Robert Cohen for **NML Capital** said he would be formally writing to **Bank of New York Mellon**, which processes payments for Argentina, to ensure the bank complies with court orders not to disperse funds to some bondholders and not others.

> "We still think that the most likely outcome will be some sort of eventual settlement."
>
> — ***Daniel Kerner***

Ecuador National Assembly Considers New Financial Regulations

Ecuador's National Assembly on Thursday began reviewing legislation for a new monetary and financial code, *The Wall Street Journal* reported. Critics of the proposal have said they are particularly concerned about a motion to create a regulatory body with broad powers to determine how private financial institutions should handle their liquidity, according to the report. "It is important to reinforce controls in the financial system, but it is not healthy to have a super-authority to make decisions for private banks," Alberto Acosta, an economist at **Grupo Spurrier**, told the newspaper. The bill would create a Board of Monetary and Financial Regulation, which would be made up of government ministers. According to the *Journal*, the board would establish minimum liquidity requirements, as well as the size of loans and the amount of credit that should be sent to each sector. It would also regulate external borrowing limits and establish conditions and limits on the holdings of foreign assets by banks. Ecuador's private-sector banks have faced headwinds under socialist President Rafael Correa. In January, economists said they were expecting profits at Ecuadorean banks to continue declining this year with President Correa's push for more regulations on financial services companies. Ecuadorean banks had a return on equity of 10.15 percent last year, a figure that has declined every year since 2011, according to the Private Banking Association of Ecuador. **Fitch Ratings** analyst Larisa Arteaga told the *Advisor* in February that implementing "these types of measures could backfire and have a negative effect

Correa

File Photo: Government of Ecuador.

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on the economy by reducing banks' ability to expand credit." In related news, Ecuador returned to the bond markets last week with surprising vigor, placing $2 billion due 2024, "much more than even optimists had expected," **Analytica Securities** told clients in a research report circulated Saturday. [Editor's note: See Q&A with Ecuador's ambassador on the bond sale in the April 18 issue of the *Advisor*.]

Political News

Chilean President Scheduled to Meet Obama in Washington Monday

Chilean President Michelle Bachelet departs for Washington on Saturday for talks scheduled June 30 with U.S. President Barack Obama and meetings with officials from the International Monetary Fund and World Bank, *La Tercera* reported Thursday. Bachelet, who took office three months ago for her second non-consecutive term as Chile's head

Bachelet

File Photo: Government of Chile.

of state, will be accompanied by Foreign Minister Heraldo Muñoz, Economy Minister Luis Felipe Céspedes and Energy Minister Máximo Pacheco. Local media reports suggest the agenda will include discussion of progress on the Trans-Pacific Partnership, or TPP, trade negotiations. Chief negotiators from the dozen countries aiming to create the TPP's free-trade zone will meet in Ottawa from July 3 to 12, *The Wall Street Journal* reported this week. The talks, which officials previously hoped would be concluded this year, have been bogged down by thorny issues ranging from agriculture to automobiles. This year marks the 10th anniversary of the Chile-U.S. Free Trade Agreement.

Company News

Two Consortia Enter Bids for Peru's Southern Gas Pipeline

ProInversion, the Peruvian government's investment promotion agency, said Thursday that two consortia out of three qualifiers have submitted their technical and economic bids for the country's planned southern gas pipeline, or Gasoducto del Sur project, state news agency Andina reported. The winner from among the two bidders, one from Gasoducto Sur Peruano, made up of Brazil's **Odebrecht** and Spain's **Enagás**, and the other from Gasoducto Peruano del Sur, consisting of France's **GDF Suez**, as well as **Sempra** of the United States, Argentina's **Techint** and Colombia's **TGI**, should bring up to $4 billion in investment to build the 1,200 kilometer network, according to the report. The pipeline will transport natural gas from the Camisea fields in Peru's south-eastern Amazon region to the Peruvian coast. This year marks the 10th anniversary of the start of production at the massive Camisea natural gas project, which provides all of the natural gas consumed in Lima and accounts for 50 percent of electric generation in the country, according to Jeremy Martin, director of the energy program at the Institute of the Americas in California. After the Gasoducto del Sur project is underway, there will be another tender for a pipeline to the north-central region and for the construction of rings north and south of Lima, Peru's minister of energy and mines, Eleodoro Mayorga Alba, told the *Advisor*. Peru expects to have 540,000 households with piped natural gas connections nationwide by the end of 2016. [Editor's note: See related Q&A with Mayorga Alba in Tuesday's issue of the *Advisor*.]

Featured Q&A

Continued from page 1

to those of Brazil and Uruguay, somewhere in the 200 bps range. There are still some risks. Argentina has to make a payment on the discount bonds by July 30 at the latest to avoid a default, while there is a risk that an agreement with the holdouts could trigger the RUFO clause, which implies that Argentina would have to make large payments to the exchange bondholders. All things considered, the outlook is positive and could be a turning point for the prices of Argentine assets."

A Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires: "The *Financial Times* columnist Martin Wolf employed the same expression as President Kirchner: 'Extortion backed by the U.S. judiciary.' The prohibition against Buenos Aires paying the 92.4 percent of bondholders that accepted the restructuring is a gross overreach because the New York court does not have jurisdiction over acts of the government occurring in Argentine territory, with bonds distinct to those executed (some of them emitted under Argentine law) and whose holders did not question any decision of the state nor take part in the lawsuit. The

> "A negotiated payment to the holdouts...would very likely attract more capital than what the government would have to disburse."
>
> — *Alberto Ramos*

International Covenant on Economic, Social and Cultural Rights holds that Argentina should use 'the maximum of its available resources' to achieve the full realization of the rights, like food, health, education, social security and labor, recognized in the covenant, which

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Featured Q&A

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since 1994 has had constitutional weight, before using them for other objectives 'such as the servicing of debt.' The 'Guiding Principles on Foreign Debt and Human Rights,' approved by the United Nations Human Rights Council in 2012, says that no state's agreement on external debt should affect its obligation to satisfy basic economic, social and cultural rights. The Supreme Court of Argentina already said that contractual obligations of debt repayment may be limited in situations of extreme crisis in which the state otherwise could not maintain the minimum standards of human rights required by international treaties."

Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs: "We firmly believe that it is in the best interest of Argentina to close this decade-long chapter of litigation and financial isolation/autarky. What is required at this stage is a pragmatic approach to the issue of the holdouts, rather than a dogmatic, uncompromising and confrontational stance. In our assessment, settling with the holdout creditors will not force the economy into a crisis as the country is solvent (the public debt load as a share of GDP is relatively moderate). Curiously, arriving at a negotiated solution with the holdout creditors is the best way to protect and support the economy and the cherished central bank reserves. Another default would create significant uncertainty and entail a significant economic and financial cost for an economy that is already struggling under the weight of large macroeconomic imbalances (e.g., very high inflation, distorted relative prices, etc.) generated by years of heterodox and investment-unfriendly policies. We are of the view that a negotiated payment to the holdouts would be net positive in terms of capital inflows into the economy, as that would allow Argentina to finally return to international capital markets and by boosting market sentiment would likely also stimulate foreign direct investment and portfolio inflows. That is, a negotiated payment to the holdouts, rather than breaking the country financially, would support the capital account and boost central bank reserves as it would very likely attract more capital than what the government would have to disburse to pay the holdout creditors. We are moderately optimistic that an acceptable solution to both parts in this long process will be finally achieved."

Editor's note: The comments above were submitted to the Advisor *before yesterday's decision by Judge Griesa to deny Argentina's request for a stay. See story on page 2.*

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